

FARM Library

Financial and Risk Management Database

Improving farm management skills one topic at a time

January 2013

Tax Changes Due to Fiscal Cliff

The Senate passed at about 2:00 am Jan 1st and the House passed at 11:00 pm Jan 1st H.R. 8 that was initially passed by the House on 8/1/12. The President signed on 1/2/2013. Here are the details relevant to the majority of our farm clients.

Payroll Tax Rates

The temporary payroll tax cut that existed in 2011 and 2012 did not get renewed.

- Starting with paycheck issued in 2013, the amount to withhold from employees pay is increased from 5.65% (4.2% social security and 1.45% Medicare) to 7.65% (6.2% Social Security and 1.45% Medicare). Employees will see a 2% decrease in their net checks starting now.
- The matching part for employers remains unchanged at 7.65%.
- Please double check your software to be sure it is computing net paychecks correctly.
- Self-Employment tax is also effected, going from 13.3% back to 15.3%
- Employers should begin withholding the correct amounts ASAP or no later than Feb 15, 2013.
- If the correct amounts were not withheld from employees' paychecks, employers have until March 31, 2013 to make these corrections and withhold any additional amount needed.

Section 179 and Bonus Depreciation Limits

- Section 179 was extended for 2012 and 2013 to \$500,000 with a \$2 million limit on purchases. In 2014 the deduction limit goes back to \$33,000 indexed for inflation, so brace yourselves for another tax planning challenge in late 2013. Section 179 applies to the purchase price less the trade in allowed for both new and used qualified capital purchases
- 50% Bonus depreciation for new purchases with a life class less than 20 years was extended for 2013.
- For taxpayers who now find large unplanned depreciation deductions available, perhaps utilizing the election out of the installment method for deferred grain sales would help. This must be done on a per contract review. For any grain sold and delivered in 2012 that has a valid deferred payment agreement attached, it's possible to treat that contract as 2012 income even though the money was received in 2013. Perhaps you take 2012 crop insurance instead of deferring it.

Individual Tax Rates

- Tax rates for individuals with income levels up to \$450,000 will remain permanently at 10%, 15%, 25%, 33%, 35% and a new 39.6% rate applies to AGI over \$450,000 MFJ and \$400,000 Single.

- Personal exemptions and the total itemized deductions are phased out for AGI over \$300,000 MFJ and \$250,000 Single

MFJ	Single	Income Tax	Capital Gains
\$0 to \$17,900*	\$0 to \$8,950*	10%	0%
\$17,900 to \$72,500*	\$8,950 to \$36,250*	15%	0%
\$72,500 to \$146,400*	\$36,250 to \$87,850*	25%	15%
\$146,400 to \$223,050*	\$87,850 to \$183,250*	28%	15%
\$223,050 to \$398,350*	\$183,250 to \$398,350*	33%	15%
\$398,350 to \$450,000*	\$398,350 to \$400,000*	35%	15%
\$450,000 and up	\$400,000 and up	39.6%	20%

*2013 tax brackets have not been released, these numbers are estimates and are subject to change.

Capital Gains Rates

- For taxpayers in the 10% and 15% tax brackets, capital gains and qualified dividends remain at 0%. For taxpayers in the 25%, 28%, 33%, and 35% brackets the rate is 15%. Taxpayers in the 39.6% bracket will pay 20%. This is also a permanent change starting in 2013.
- In earlier legislation a new 3.8% Medicare tax was imposed on unearned income for AGI over \$250,000 beginning in 2013.

Permanent Fix to Estate Tax Exemption

- The estate tax exemption was put permanently in place at \$5 million. indexed for inflation. (\$5.12 million in 2012)
- The top tax rate increases from 35% to 40%.
- The portability provision allowing both spouses to share a \$10 million exemption is retained. The lifetime gift exclusion remains at \$5 million.

S-Corp Recognition Period

For 2012 and 2013, the S-Corp recognition period for the BIG tax is five years for purposes of determining the net recognized BIG tax. If you converted your C-Corp to an S-Corp prior to 2008 you can sell the assets in 2013 and avoid paying built in gains tax. You will however still have to pay the tax on the gain of the asset. If this applies to you, please talk to your consultant.

Non-Business Energy Credit

- This is the credit for windows, doors, etc.
- Back for 2012 and 2013.
- There is a maximum \$500 lifetime credit.

AMT Exemptions

- **Permanently raised to \$78,750 MFJ, \$50,600 Single and indexed for inflation. Retroactive to Jan 1, 2012**

Extension of Farm Bill

- Extends through Sept. 30, 2013 most provisions of farm policy as they were in effect on Sept. 30, 2012, under the 2008 Farm Bill, including direct payments.
- Extends current commodity terms and conditions for commodities for the 2013 crop year.
- Extends through Dec. 31, 2013, the Dairy Product Price Support Program and the Milk Income Loss Contract Program.
- Maintains the maximum enrollment in the Conservation Reserve Program at the same level (32 million acres) that has applied for fiscal years 2010 through 2012.

Tax Free Distributions From IRA to Charities

- For 2012 and 2013 you can donate distributions from your IRA tax free to your favorite charity.
- Distributions can be taken in January 2013 and be treated as if done in December 2012
- Distributions taken in December 2012 can be paid to charities in January 2013 and treated as qualifying charitable distributions for 2012.

American Opportunity Credit extended through 2017

- Available for first 4 years of college
- 100% of first \$2,000 and 25% of next \$2,000 for a total of \$2500 per student per year.

\$250 Teacher Deduction

- Teachers with out of pocket expenses for things like classroom supplies can deduct up to \$250.
- Effective for 2013.

BOOKCLOSING

Travel Dates for Book closing

- January 11th: Garfield County Ext.—Kayla
- January 16th:
 - Nemaha County Ext. —Michelle & Amber
 - Platte County Ext.- Tina, Kayla, & Jim
- January 22-24: Norfolk— Michelle & Amber
- January 23: Cambridge-Tina, Kayla, & Jim

If you come to our Lincoln office and file your taxes by March 1st, please call and schedule your appointment today.

- January 24: Imperial-Tina, Kayla, & Jim
- January 25th: North Platte-Tina, Kayla, & Jim
- January 28th: Holdrege-Tina, Kayla, & Jim
- January 29th: Buffalo County Ext– Michelle, Tina, Jim, & Kayla,
- January 31st: Adams County Ext-Michelle, Amber, Tina, & Kayla

PcMars Updates

For those of you doing accounting at home on PCMars, you should have received a notice that there is an update to PcMars. (PcMars 2.3) You will need to purchase this update before you can download any future free updates. Once you purchase the update, PcMars will send you a CD with the 2.3 update.



Breakfast Meetings

Thursday January 10th: Ben Pomajzl, NE State Patrol, CDL and New MAP 21 Regulations

Wednesday, February 13th : Brad Heinrich-Crop Insurance

Wednesday, March 20th: Brad Lubben, Farm Bill

Wednesday, April 17th: Bruce Johnson, Land Values



2012 Analysis

It's not too late to do a 2012 Farm Financial Analysis. The start of a new year is not only the time to make resolutions to make improvements, it's also the time to look back. Farm Financial Analysis is the tool you can use to review the year, what was good and where improvements can be made. It's also the tool used to understand how the management decisions you make will impact your farm. It is used to answer questions such as: If my cash rent goes up, what does my profit look like for that farm? How much do I need to sell my crops for to make enough money for my goals? Should I hang onto my livestock ? Is it time to get out? Increase my herd? Farm Financial Analysis analyzes your farm with your numbers to gives you the ability to answers these questions and so many others.

To find out more, talk to your consultant.